

March 2005

FINANCIAL AUDIT

American Battle Monuments Commission's Financial Statements for Fiscal Years 2004 and 2003



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Highlights

Highlights of [GAO-05-298](#), a report to the Senate and House Committees on Veterans' Affairs

Why GAO Did This Study

In accordance with 36 U.S.C. 2103, GAO is responsible for conducting audits of the agencywide financial statements of the American Battle Monuments Commission (the Commission). GAO audited the financial statements of the Commission for the fiscal years ended September 30, 2004, and 2003. The audits were done to determine whether, in all material respects, (1) the Commission's financial statements were reliable, and (2) Commission management maintained effective internal control over financial reporting and compliance with laws and regulations. Also, we tested Commission management's compliance with selected laws and regulations.

The American Battle Monuments Commission was created in 1923 to commemorate the sacrifices and achievements of U.S. Armed Forces where they have served overseas since April 6, 1917, and locations within the United States as directed by Congress. The Commission designs, administers, operates, and maintains 24 American military cemeteries on foreign soil and 25 federal memorials, monuments, and markers, 22 of which are on foreign soil. The Commission was also responsible for designing and constructing the national World War II Memorial on the Capitol Mall in Washington, D.C., and for maintaining 4 nonfederal memorials with funds provided by those memorials' sponsors.

www.gao.gov/cgi-bin/getrpt?GAO-05-298.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Steven J. Sebastian at (202) 512-3406 or sebastians@gao.gov.

FINANCIAL AUDIT

American Battle Monuments Commission's Financial Statements for Fiscal Years 2004 and 2003

What GAO Found

In our opinion, the financial statements of the American Battle Monuments Commission as of September 30, 2004, and 2003, and for the fiscal years then ended, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Commission maintained effective internal control over financial reporting (including safeguarding of assets) and compliance with laws and regulations as of September 30, 2004. In addition, we found no instances of Commission noncompliance in fiscal year 2004 with selected provisions of laws and regulations we tested.

However, our work identified inadequate controls over information technology in two areas and improper recognition of property additions and accrued liabilities as of September 30, 2004, that we considered to be reportable conditions. The Commission recorded accounting adjustments to correct its property and accrued liabilities at year-end and is working to improve internal controls in all these areas during fiscal year 2005.

For fiscal year 2004, the Commission spent \$40.4 million of appropriated funds to maintain its 24 cemeteries and 25 federal memorials. It also spent \$47.5 million of private contributions and investment earnings, primarily for construction-in-progress of the World War II Memorial that was dedicated on Memorial Day weekend in May 2004. On November 1, 2004, the Commission formally transferred the World War II Memorial to the National Park Service, which assumed responsibility for its perpetual care.

May 2004: President Bush Dedicates the WWII Memorial, Washington, D.C.



Source: Commission photo by Richard Latoff.

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Abbreviations

FMFIA	Federal Managers’ Financial Integrity Act of 1982
OMB	Office of Management and Budget

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United States Government Accountability Office
Washington, D.C. 20548

March 1, 2005

The Honorable Larry E. Craig
Chairman
The Honorable Daniel K. Akaka
Ranking Minority Member
Committee on Veterans' Affairs
United States Senate

The Honorable Steve Buyer
Chairman
The Honorable Lane Evans
Ranking Minority Member
Committee on Veterans' Affairs
House of Representatives

In accordance with 36 U.S.C. 2103, this report presents the results of our audits of the American Battle Monuments Commission's (the Commission) financial statements for the fiscal years ended September 30, 2004, and 2003.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Appropriations and the House Committee on Appropriations. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, the Chairman of the Commission, and other interested parties. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staffs have any questions concerning this report, please contact me at (202) 512-3406 or Roger R. Stoltz, Assistant Director, at (202) 512-9408. Key contributors to this engagement were Patricia A. Summers, West E. Coile, Brooks A. Bare, Cara L. Bauer, Kimberly A. Tibbs, James S. Maziasz, and Joel Rodriguez.

Steven J. Sebastian
Director
Financial Management and Assurance



United States Government Accountability Office
Washington, D.C. 20548

To the Chairman of the American Battle Monuments Commission

In accordance with 36 U.S.C. 2103, we are responsible for conducting audits of the agencywide financial statements of the American Battle Monuments Commission (the Commission). In our audits of the Commission's financial statements for fiscal years 2004 and 2003, we found

- the consolidating financial statements as of and for the fiscal year ended September 30, 2004, and comparative consolidated totals as of and for the fiscal year ended September 30, 2003, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles;
- although internal controls should be improved, the Commission maintained effective internal control over financial reporting (including safeguarding assets) and compliance with laws and regulations as of September 30, 2004; and
- no reportable noncompliance with laws and regulations we tested.

The following sections discuss in more detail (1) these conclusions and our conclusions on Management's Discussion and Analysis and other supplementary information and (2) the objectives, scope, and methodology of our audit.

Opinion on Financial Statements

The American Battle Monuments Commission's consolidating balance sheet as of September 30, 2004, and its related consolidating statements of net cost and changes in net position; budgetary resources; and financing, with accompanying notes for the fiscal year then ended, and comparative consolidated totals as of and for the fiscal year ended September 30, 2003, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Opinion on Internal Control

The Commission maintained, in all material respects, effective internal control over financial reporting (including safeguarding assets) and compliance as of September 30, 2004, that provided reasonable assurance that misstatements, losses, or noncompliance material in relation to the

consolidating financial statements or to stewardship information would be prevented or detected on a timely basis. Our opinion is based upon criteria established under 31 U.S.C. 3512 (c), (d) [Federal Managers' Financial Integrity Act (FMFIA)], and Office of Management and Budget (OMB) Circular No. A-123, *Management Accountability and Control* (June 21, 1995).

However, our work identified the need to improve certain internal controls, as described below, that we consider reportable conditions. Reportable conditions are significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Commission's ability to meet internal control objectives or meet OMB criteria for reporting matters under FMFIA. In addition, misstatements may occur in other Commission financial information not included in this report as a result of these reportable conditions.

Reportable Conditions

During our audit we noted deficiencies in controls over information technology systems and improper recognition of property additions and accrued liabilities as of September 30, 2004. Commission management disclosed the information technology and accrued liability conditions in its fiscal year 2004 FMFIA report and is working to implement corrections for all internal control deficiencies. The issue of improper recognition of property additions for fiscal year 2004 was identified by us after the Commission had filed its 2004 FMFIA report.

Deficient Controls over Information Technology Systems

Inadequate controls over information technology systems were identified in the two following areas.

- **User documentation:** While the Commission's existing accounting system, implemented on October 1, 2001, has adequate user documentation, there continued to be a lack of user documentation to support its older legacy subsystems that were still used during fiscal year 2004, primarily for payroll. This condition has existed since our first audit of the Commission's financial statements in fiscal year 1997 and includes the Clipper system used by the European Regional Office and the dBase IV system used by the Mediterranean Regional Office. Commission personnel have learned how to use these legacy subsystems over the years primarily through on-the-job training and have limited support to explain how subsystems functions should be

performed and to answer questions. In January 2004, payroll processing for the Commission's General Schedule employees was converted to the General Services Administration. Payroll processing for all of the Commission's Foreign Service National employees was in negotiation for conversion later in fiscal year 2005. Thus, while the Commission has made some progress, further efforts to improve user documentation are needed.

- **Security program and access controls:** During our fiscal year 2004 audit, we continued to identify some security controls over the Commission's computer system, such as administrative controls over network configuration, passwords, and access to files, that were not effective at all Commission locations as of September 30, 2004. Since the installation of the Commission's automated accounting system in fiscal year 2002, we have conducted annual security and general controls reviews. In separate Limited Official Use reports issued after our fiscal years 2002 and 2003 audits, we communicated detailed information and made 49 and 105 specific recommendations, respectively, to strengthen Commission internal controls in information technology, accounting procedures, financial reporting, and cash management. While the Commission has implemented a number of these recommendations, further efforts will be needed to correct the remaining weaknesses during fiscal year 2005.

Improper Recognition of Property Additions and Accrued Liabilities

As of September 30, 2004, the Commission's European Regional Office had not properly recognized almost \$1 million of property additions and omitted \$0.3 million of accrued liabilities for accounts payable and accrued salaries and benefits from the Commission's accounting records. This condition also resulted in misstating General Fund fiscal year 2004 expenses by a corresponding amount. While the cutoff of accrued liabilities at the Commission's European Regional Office has improved in fiscal year 2004 compared to the \$1.1 million of unrecorded accrued liabilities we identified in fiscal year 2003, it continues to be a reportable condition. We believe that the fiscal year 2004 condition was caused by early year-end closing of the accounting records and a lack of understanding at the Commission's European Regional Office of capitalization concepts and proper year-end cutoff as required by accrual accounting. Proper expensing of heritage asset additions, while capitalizing and depreciating general property additions over \$25,000, is necessary for proper presentation. Proper cutoff of accrued liabilities for goods, services, and benefits received in fiscal year 2004, but invoiced and

paid in fiscal year 2005, is also necessary for proper presentation. The Commission subsequently recognized these property additions and accrued liabilities through accounting adjustments in order to fairly present its financial statements for fiscal year 2004 in conformity with U.S. generally accepted accounting principles.

Compliance with Laws and Regulations

Our tests of the Commission's compliance with selected provisions of laws and regulations for fiscal year 2004 disclosed no instances of noncompliance reportable under U.S. generally accepted government auditing standards or OMB audit guidance. However, the objective of our audit was not to provide an opinion on overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

Consistency of Other Information

The Commission's Management Discussion and Analysis and stewardship statements of heritage assets and an accompanying note contain a wide range of data, some of which are not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with officials of the Commission. Based upon this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

Objectives, Scope, and Methodology

Commission management is responsible for (1) preparing the financial statements in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad internal control objectives of FMFIA are met; and (3) complying with applicable laws and regulations.

We are responsible for obtaining reasonable assurance about whether (1) the Commission's financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) Commission management maintained effective internal control that provides reasonable, but not absolute, assurance that the following objectives were met.

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and

stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with applicable laws and regulations: Transactions are executed in accordance with (1) laws governing the use of budgetary authority; (2) other laws and regulations that could have a direct and material effect on the financial statements; and (3) any other laws, regulations, or governmentwide policies identified by OMB guidance.

We are also responsible for (1) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and for which OMB guidance requires testing and (2) performing limited procedures with respect to certain other information appearing in the Commission's annual financial report. In order to fulfill these responsibilities, we

- examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessed the accounting principles used and significant estimates made by Commission management;
- evaluated the overall presentation of the financial statements;
- obtained an understanding of internal control related to financial reporting (including safeguarding assets) and compliance with laws and regulations (including execution of transactions in accordance with budget authority);
- obtained an understanding of the recording, processing, and summarizing of performance measures as reported in Management's Discussion and Analysis;
- tested relevant internal controls over financial reporting and compliance, and evaluated the design and operating effectiveness of internal control;
- considered the process for evaluating and reporting on internal control and financial management systems under FMFIA; and
- tested compliance with selected provisions of the following laws:

-
- The Commission's enabling legislation codified in 36 U.S.C. Chapter 21,
 - Public laws applicable to the World War II Memorial Fund,
 - Departments of VA and HUD, and Independent Agencies Appropriations Act 2004,
 - Antideficiency Act,
 - Pay and Allowance System for Civilian Employees, and
 - Prompt Payment Act.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to those controls over financial reporting and compliance. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to the Commission. We limited our tests of compliance to those required by OMB audit guidance that we deemed applicable to the Commission's financial statements for the fiscal year ended September 30, 2004. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB audit guidance.

Commission Comments

Commission management was provided with a draft of this report and concurred with its facts and conclusions.

A handwritten signature in black ink, reading "Steven J. Sebastian". The signature is written in a cursive, flowing style.

Steven J. Sebastian
Director
Financial Management and Assurance

January 31, 2005

Annual Financial Report of the American Battle Monuments Commission

Annual Financial Report

ANNUAL FINANCIAL REPORT

THE AMERICAN BATTLE MONUMENTS COMMISSION

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Management's Discussion and Analysis

AMERICAN BATTLE MONUMENTS COMMISSION
ANNUAL FINANCIAL REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MDA)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Commission Profile

Since 1923, the mission of the American Battle Monuments Commission (the Commission) has been to (1) commemorate the achievements and sacrifices of United States Armed Forces where they have served since April 6, 1917, through the erection and maintenance of suitable memorial shrines; (2) design, construct, operate and maintain permanent American military burial grounds in foreign countries; (3) control the design and construction on foreign soil of U.S. military memorials, monuments, and markers by other U.S. citizens and organizations, both public and private; and (4) encourage U.S. governmental agencies and private individuals and organizations to adequately maintain the memorials, monuments, and markers erected by them on foreign soils. Our fiscal year 2004 appropriation supported our continued commitment to the worldwide responsibilities that flow from this mission.

In performance of its mission, the Commission administers, operates and maintains 24 permanent American military cemeteries; 25 federal memorials, monuments, and markers; and 4 nonfederal memorials. While 3 memorials are located in the United States, the remaining memorials and all of our cemeteries are located in 14 foreign countries, the U.S. Commonwealth of the Northern Mariana Islands, and the British dependency of Gibraltar. These cemeteries and memorials are among the most beautiful and meticulously maintained shrines of their nature in the world. Interred in the cemeteries are 124,917 U.S. War Dead: 30,922 of World War I, 93,245 of World War II, and 750 of the Mexican American War. Additionally, 6,114 American Veterans and others are interred in the Mexico City and Corozal Cemeteries. The World Wars and Mexico City Cemeteries are closed to future burials except for the remains of U.S. War Dead found from time to time in the World War I and II battle areas.

In addition to grave sites, the World War I and II cemeteries, together with 3 memorials on U.S. soil, commemorate by name on Walls of the Missing the 94,132 U.S. servicemen and women who were Missing in Action or lost or buried at sea in their general region during the World Wars and the Korean and Vietnam Wars.

Most of our facilities range in age from 44 to 90 years old with our Mexico City Cemetery being over 150 years old. The permanent structures and plantings, which make our facilities among the most beautiful memorials in the world, are aging and require increased funding to maintain them at the current standards. Accordingly, we prioritize the use of our maintenance and engineering funds very carefully to ensure the most effective utilization of our available resources. All of the plantings, including the lawns and to some extent the meadows, must be cut and/or shaped, fed and treated with insecticides and fungicides at regular intervals during the growing season. The plantings also must be replaced when their useful lives are exhausted or they receive major storm damage.

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The Commission also administers trust funds to (1) build memorials authorized by Congress, but financed primarily from private contributions, commemorative coin proceeds, and investment earnings; (2) decorate grave sites with flowers from private contributions; and (3) maintain and repair nonfederal war memorials with private contributions.

Organizational Structure

The Commission's organizational structure is presented in Figure 1 below.

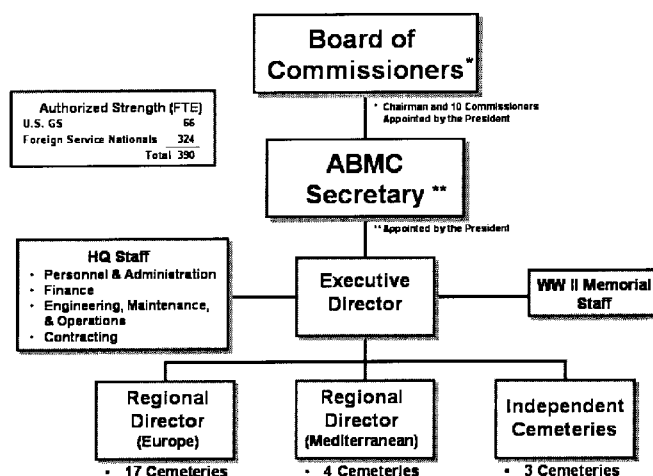


Figure 1. The Commission's Organizational Structure

The Commission's policymaking body consists of an 11 member Board of Commissioners appointed by the President of the United States for an indefinite term and whose members serve without pay. The commissioners establish policy and ensure proper staff functioning in carrying out the mission of the Commission. During inspections, they observe, inquire, comment upon, and make recommendations on any and all aspects of Commission operations. The Commission's daily operations are directed by an Executive Level Secretary, who is appointed by the President and assisted by an Executive Director, a member of the Senior Executive Service.

The Commission's headquarters office is in Arlington, Virginia and regional offices are located in Garches, France, just outside Paris, and in Rome, Italy.

For fiscal year 2004, the Commission maintained its authorization for 390 full-time equivalent (FTE) positions. U.S. citizens constituted 66 members of the staff, while the remaining 324 were Foreign Service Nationals employed at our regional offices and at the cemeteries in the countries where the Commission operates.

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Operations Management

The Commission's fiscal year 2004 funding focused on personnel costs, service fees, scheduled maintenance and repairs, supplies, materials, spare parts, replacement of uneconomically repairable equipment, and capital improvements, as well as funding toward completion of the design and construction of the Normandy Cemetery Interpretive Center.

The Commission's fiscal year 2004 appropriation of \$41,300,000 was available for salaries and expenses of \$32,300,000 and the design and construction of the Normandy Cemetery Interpretive Center of \$9,000,000. A government-wide rescission of .0059 reduced the Commission's appropriation by \$243,670, causing it to reduce spending in much needed engineering projects to accommodate this loss.

Within its fiscal year 2004 appropriation, the Commission also targeted \$2.0 million to continue an Infrastructure Modernization Program. As previously noted, our cemeteries and their infrastructure are aging. With the help of Congress and the Office of Management and Budget over the last 5 years, we have eliminated our backlog of deferred maintenance projects. We must now continue our efforts to replace and/or upgrade outdated and deteriorating systems.

The Infrastructure Modernization Program enables us to take a systemic look at our infrastructure and address areas that will: (1) reduce the growth of operational and routine maintenance costs; and (2) promote more effective long-term planning and budgeting. The first phase of this program, conducted during fiscal years 2000 and 2001, established a baseline assessment of our installations by utilizing in-depth technical surveys. These surveys, conducted by professional engineering firms applying current industry standards, regulations, and technological advances, assessed our electrical and structural systems and identified what needed to be accomplished to our facilities. A subsequent study, conducted in fiscal year 2002, examined our diverse water systems at each facility. The second phase, which began in fiscal year 2002, addresses corrective actions in electrical and structural systems. This phase will continue through fiscal year 2006.

The shrines to America's War Dead entrusted to the Commission's care require a formidable annual program of maintenance and repair of facilities, equipments, and grounds. This care includes upkeep of over 131,000 graves and headstones and 73 memorial structures (within and external to the cemeteries) on 1,641.2 acres of land. Additionally, the Commission maintains 41 residential quarters for assigned personnel; 24 maintenance facilities; 67 miles of roads and walkways; 911 acres of flowering plants, fine lawns, and meadows; nearly 3 million square feet of shrubs and hedges; and over 11,000 ornamental trees.

Care and maintenance of these resources is exceptionally labor intensive, thus personnel costs accounted for 61 percent of the Commission's fiscal year 2004 obligations. The remaining 39 percent funded other operating costs. Figure 2 below shows the obligation of funds by object class under the Commission's fiscal year 2004 obligations.

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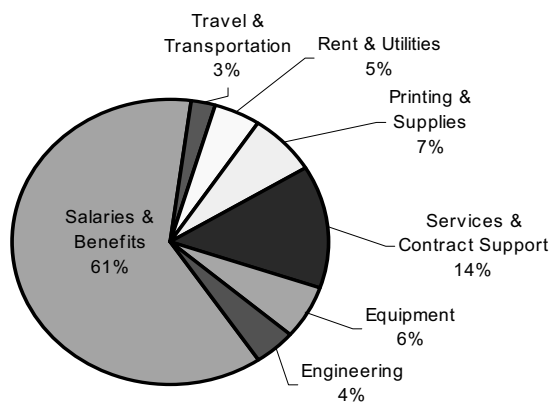


Figure 2. The Commission's Fiscal Year 2004 Obligations by Object Class

Mission and Goals

The Commission's mission has four primary components:

1. Commemorating the services and achievements of United States Armed Forces where they have served since April 6, 1917 (the date of entry of the United States into World War I), through the erection of suitable memorial shrines.
2. Designing, constructing, operating and maintaining permanent U.S. military cemeteries and memorials in foreign countries.
3. Controlling the design and construction of U.S. military monuments and markers in foreign countries by other U.S. citizens and organizations, both public and private.
4. Encouraging the maintenance of such monuments and markers by their sponsors.

To support this mission, the Commission has focused on the following goals:

Goal 1. To provide the most extensive and best possible support to the next of kin and our many customers who utilize the services of the American Battle Monuments Commission.

Goal 2. Conduct an effective Infrastructure Modernization Program at all Commission cemeteries, memorials, and monuments in order to modernize our facilities and maintain the desired standards.

Goal 3. Determine if technology, outsourcing, and automation can improve efficiency and/or reduce the costs of foreign manpower.

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Goal 4. Modernize the Commission's accounting systems and funding processes to ensure funding obtained is utilized and accounted for in the most effective manner.

Goal 5. Establish a World War II Memorial in the Washington, D.C. area to honor those who served in the Armed Forces of the United States during World War II and commemorate the participation of the nation in that war.

Performance against these goals was measured within the framework established by the President's Management Agenda and the Commission's strategic plan.

President's Management Agenda Initiatives

The Commission made significant progress in the implementation of each item within the President's Management Agenda as follows.

Strategic Management of Human Capital

Managing our human capital demands that we have the right person with the right skills in every position. In fiscal year 2002 we began a worldwide manpower study, which would outline our manpower requirements, position descriptions, workloads, and manpower distribution to ensure that we deploy our workforce properly. We expect to receive the final report in the second quarter of fiscal year 2005 and will review and implement the study recommendations through the remainder of the year and into fiscal year 2006.

Competitive Sourcing

We have used competitive sourcing initiatives in a number of ways to improve performance and save costs. Our fiscal year 2004 budget contained funding for upgrades, hosting, and 24-hour support of our financial management system. These funds allowed us to outsource support to contractors experienced in providing such services and enabled us to support our worldwide operations without doubling the size of our financial management staff. The resources devoted to our Infrastructure Modernization Program and engineering programs largely supported competitive sourcing of our infrastructure improvement efforts, allowing our government employees to focus on our daily mission of maintaining our cemeteries while implementing complex systems and upgrading our physical plant. Most of our construction and engineering projects were contracted out, since these projects are usually unique and beyond the capability of our limited staff.

Improved Financial Performance

Since fiscal year 1997, the Commission has been required to produce financial statements and the Comptroller General of the United States has been required to independently audit these statements. Each year, the Commission has earned an unqualified opinion on its financial statements from the Government Accountability Office. However, we recognize that improved financial performance is more than achieving an unqualified audit opinion. It is about putting useful and timely information in the hands of Commission management with which they can make informed decisions. The fiscal year 2004 budget not only supported our daily accounting

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operations and proper internal controls, but allowed us to identify additional management needs and reports to provide the best financial information available.

Expanded E-Government

Over the last several years, the Commission has expanded access to valuable information through the use of online tools. We maintain a Web site that allows visitors to gather information on our organization, and our cemeteries and memorials with their locations. We will continue our efforts to enable citizens to make contributions to our flower funds electronically through the use of credit cards. This will allow greater ability for citizens to arrange for flowers to memorialize the memory of loved ones who have made the ultimate sacrifice for our nation.

We also support the Administration's efforts to reduce the number of payroll providers with the federal government. During fiscal year 2004, the General Services Administration began providing payroll service to the Commission for General Service employees. This service includes online leave and earnings statements and other key pay and benefits information.

Budget and Performance Integration

A key element in linking budget and performance is having timely and reliable financial data. We have achieved that with our integrated financial system. Another key element is the process by which the Commission ties performance within the organization to the budget formulation process. In late fiscal year 2004, we began implementing a Cemetery Evaluation Review System that uses existing policies and standards to assess and prioritize both requirements and resources. Evaluations and reviews form the basis for future budget requirements.

We are pressing forward in the budget process to ensure that our funding requests support the objectives of the agency and the President's Management Agenda.

Selected Performance Goals and Results

During fiscal year 2004, the Commission demonstrated an ability to achieve performance results for its goals through a number of specific projects that tie directly to its strategic goals as follows.

1. In support of next of kin and other customers who use our services, the Commission provides burial and memorialization site information; letters authorizing nonfee passports for members of the immediate family traveling overseas primarily to visit the cemetery; in-country travel and accommodation information; and upon arrival at the cemetery, escort to the appropriate grave or memorialization site. Requesters are provided a photograph that is taken of the appropriate headstone or section on the Wall of the Missing, which is mounted on a color lithograph of the cemetery or memorial where a serviceman or woman is buried or commemorated by name. The Commission also purchases floral decorations with donor funds, and the donor is provided with a photograph of the headstone or Wall of the Missing with the decoration in place.

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2. In addition to responding to inquiries by friends and relatives of the War Dead interred or memorialized at its sites, the Commission also provides information to the Executive Branch, Members of Congress, other government agencies, historians, and other interested individuals. During fiscal year 2004, the Commission responded to approximately 2,600 telephone calls, 3,400 letters, and 4,200 e-mail inquiries. In addition, the Commission mailed out almost 3,000 cemetery lithographs and photos during the year.
3. The Commission's Internet Website at www.abmc.gov provides visitors a convenient, user friendly, method to access information on the Commission, as well as its cemeteries, memorials, monuments, markers, and headquarters operations. In addition, information on the U.S. War Dead from the Korean War and those interred or commemorated at its World War I and World War II cemeteries are accessible on the Web-site. The Commission redesigned its Web site to be fully compliant with Section 508 of the Rehabilitation Act (29 U.S.C. 794d), as amended by the Workforce Investment Act of 1998 (P.L. 105-220, Aug. 7, 1998). In this redesign effort, the Commission focused on making electronic and information technology accessible to people with disabilities.
4. For fiscal year 2004, more than 3 million American and foreign citizens visited Commission cemeteries. Most visitors paid homage collectively to the interred Honored War Dead. Many had more personal reasons for visiting a friend or relative who never returned home from war. Regardless of the visitors' motivations, Commission employees dedicated themselves to making each visit gratifying and memorable.
5. Throughout the year, at sites around the world, the Commission hosted a variety of special events and commemorations including celebrations for Memorial Day, Independence Day, and Veterans Day. In addition, military units held ceremonies to honor their fallen comrades, and local organizations paid tribute to those who died while liberating their regions. While some ceremonies received national attention, such as the dedication of the World War II Memorial, or the 60th anniversary of D-Day, many drew local attention only. All ceremonies reflected a solemn respect for America's Honored War Dead, and appreciation for the sacrifices of all veterans. The Commission also completed the major elements of the design of the Normandy Cemetery Interpretive Center building during fiscal year 2004. Additionally, it hosted a groundbreaking ceremony on August 28, 2004.
6. With the dedication by the President of the United States of the World War II Memorial on May 29, 2004, the Commission successfully completed its largest construction project of the past 50 years. The dedication ceremony concluded an 11-year effort to design, fund, and build the memorial, which now stands on the National Mall as a lasting tribute to the service and sacrifice of America's World War II generation. The memorial is one of only four major structures on the Mall's central axis, a reflection of the significance of the event it commemorates. The Commission's fund-raising success and project stewardship resulted in an \$18.3 million balance in the WWII Memorial Trust Fund as of September 30, 2004, that will be administered by the Commission solely to the benefit of the WWII Memorial and its related programs.

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7. The Commission completed the installation and dedication of the Vietnam Veterans Memorial Plaque. In June 2000, the Commission acquired this mission under P.L. 106-214 to install a plaque that commemorates all those who died after the end of the Vietnam conflict but as a direct result of their service in that war. The Commission hosted an unveiling ceremony for the new plaque on the renovated plaza at the Vietnam Veterans Memorial in Washington, D.C. in July 2004.
8. The American Veterans of WWII, Korea, and Vietnam (AMVETS) and the Robert R. McCormick Tribune Foundation have generously donated chromatically tuned bells in carillons to enhance our overseas cemeteries. AMVETS installed the first carillon in our Manila cemetery in 1985. They subsequently formed a partnership with the foundation, and in April 2004 delivered a carillon to the Luxembourg American Cemetery, the 15th it has donated over the years.
9. The Commission initiated a replacement and renovation program for old headstones at the Oise-Aisne American Cemetery in Fere-en-Tardenois, France, in fiscal year 2004. This program uses a computer controlled engraving machine to renovate and refinish severely degraded headstones. It took several years of planning to acquire the custom machine and special tooling, as well as to establish the required training and procedures for the program to work effectively and efficiently. Fiscal year 2004 marks the start of this program, which will continue for many years and will result in a marked improvement in the overall quality of our cemetery headstones at a reduced cost.

The Commission will be reviewing and revising its mission, goals, and performance criteria during the upcoming budget year.

Management Integrity: Controls, Systems, Compliance, and Challenges

The Commission is cognizant of the importance of, and need for, management accountability and responsibility as the basis for quality and timeliness of program performance, mission accomplishment, increased productivity, cost effectiveness, and compliance with applicable laws. It has taken measures to ensure that the annual evaluation of these controls is performed in a conscientious and thorough manner according to OMB regulations and guidelines and in compliance with 31 U.S.C. 3512 (c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). The Commission's evaluation of its system of internal management practices and controls during fiscal year 2004 revealed no material weaknesses. The objectives of the Commission's internal management control policies and procedures are to provide reasonable assurance that:

1. Obligations and costs are in compliance with applicable law.
2. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
3. Revenue and expenditures applicable to agency operations are promptly recorded and accounted for.

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4. Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Based on its evaluation, the Commission concluded that there is reasonable assurance that on the whole, it complies with the provisions of FMFIA. The reasonable assurance concept recognizes that the cost of internal controls should not exceed the benefits expected to be derived and that the benefits reduce the risk of failing to achieve stated objectives.

Future Risks and Reactions

Current foreign currency losses threaten our ability to sustain our day-to-day operations. In order to insulate the Commission's annual appropriation against major changes in its purchasing power, Congress enacted legislation in 1988 (codified in 36 U.S.C. 2109) to establish a foreign currency fluctuation account in the U.S. Treasury. Cumulative gains and losses brought the balance for this account to \$5.5 million as of September 30, 2003, after a \$3.7 million net loss for fiscal year 2003. Due primarily to unfavorable exchange rates between the U.S. dollar and the European euro in fiscal year 2004, our foreign currency fluctuation account experienced significant losses that reduced its balance to \$0.8 million as of September 30, 2004. As a result, the Commission was forced to curtail some engineering projects.

Current foreign currency losses also threaten special projects such as the Normandy Interpretive Center. Beginning in fiscal year 2002, Congress directed and provided appropriated funds to the Commission for the design and construction of an interpretive center at the Normandy American Cemetery near St. Laurent-sur-Mer, France. Congress appropriated \$5.0 million in fiscal year 2002, \$4.0 million in fiscal year 2003, and \$9.0 million in fiscal year 2004, for a total of \$18.0 million. For fiscal year 2005, the Commission requested and received \$9.1 million to bring the total project funding to \$27.1 million.¹ However, we estimate that from \$5.7 million to \$7.2 million of additional funds from the foreign currency fluctuation account will be required to maintain the equivalent buying power during the construction. We appealed to the Office of Management and Budget and Congress to support additional foreign currency appropriations in fiscal year 2005 to support both our day-to-day operations and the Normandy Interpretive Center and received \$12.0 million of appropriations for the foreign currency fluctuation account.

The Commission also faces additional risk in losing funds via governmentwide rescissions to support ongoing operations in Afghanistan and Iraq, or to support Homeland Security issues. In fiscal year 2004, the Commission experienced a .0059 rescission totaling \$243,670 and reduced its spending in much-needed engineering projects to accommodate this loss in funding. For fiscal year 2005 and beyond, the Commission expects further governmentwide rescissions, which will require a reexamination of priorities and a shift in funding to maintain its essential operations.

¹ Less .0065 rescission of \$26,000 in fiscal year 2003, .0059 rescission of \$53,100 in fiscal year 2004, and .0080 rescission of \$72,800 in fiscal year 2005.

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Consolidating Balance Sheet

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING BALANCE SHEET
As of September 30, 2004
(With Comparative Consolidated Total as of September 30, 2003)

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
			<u>2004</u>	<u>2003</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total Funds</u>
<u>Assets</u>				<u>Total</u>
Intragovernmental:				
Fund balances with Treasury (note 2)	\$26,920,505	\$13,773,377	\$310,940	\$41,004,822
Treasury investments, net (note 3)		5,102,869	8,280	5,111,149
Total intragovernmental	26,920,505	18,876,246	319,220	46,115,971
Cash and foreign accounts (note 4)	111,442		576	112,018
Property sale receivable				352,671
Contributions receivable, net (note 5)		733,769		733,769
General property, plant, & equipment, net (note 6)	2,481,017			2,481,017
Total Assets	\$29,512,964	\$19,610,015	\$319,796	\$49,442,775
<u>Liabilities</u>				
Intragovernmental:				
Accounts payable	\$279,438	\$787,015		\$1,066,453
Accrued salaries and benefits	389,963			389,963
Total intragovernmental	669,401	787,015		1,456,416
Accounts payable	1,855,067	506,676	\$4,117	2,365,860
Other liabilities (note 7)	3,014,942	12,754		3,027,696
Total Liabilities	5,539,410	1,306,445	4,117	6,849,972
Commitments and contingencies (note 8)				
<u>Net Position</u> (notes 9, 10)				
Unexpended appropriations	23,981,588			23,981,588
Cumulative results of operations (deficit)	(8,034)	18,303,570	315,679	18,611,215
Total Net Position	23,973,554	18,303,570	315,679	42,592,803
Total Liabilities and Net Position	\$29,512,964	\$19,610,015	\$319,796	\$49,442,775

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Net Cost and Changes in Net Position

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF NET COST AND CHANGES IN NET POSITION
For the Year Ended September 30, 2004
(With Comparative Consolidated Total for the Year Ended September 30, 2003)

	<u>General Fund</u>	<u>Trust Funds</u>	<u>Total Funds</u>	<u>Total Funds</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u> (note 10)	<u>Other Trust Funds</u>	
			<u>2004</u>	<u>2003</u>
			<u>Total</u>	<u>Total</u>
<u>PROGRAM COSTS</u>				
Intragovernmental program costs:				
Operations and maintenance	\$2,610,749		\$2,610,749	\$2,385,701
Design and construction		\$25,695,105	25,695,105	36,687,726
Program costs with the public:				
Operations and maintenance	26,052,849		\$156,154	26,209,003
Fund raising		2,370,080		2,370,080
Administrative		1,712,123		1,712,123
Design and construction		17,614,518	79,009	17,693,527
Memorial costs		111,708		111,708
Property, plant and equipment (note 6)	3,592,586	2,404		3,594,990
Foreign currency losses, net	8,123,747			8,123,747
			8,123,747	3,721,818
Net Cost of Operations	\$40,379,931	\$47,505,938	\$235,163	\$88,121,032
				\$79,746,384
<u>CHANGES IN NET POSITION</u>				
Net Position - Start of the Year	\$22,819,563	\$62,060,540	\$280,359	\$85,160,462
				\$121,918,088
<u>Budgetary Financing Sources</u>				
Appropriations used	39,719,420			39,719,420
Increase (decrease) in unexpended appropriations	1,176,746			1,176,746
				(1,470,149)
Total Budgetary Financing Sources	40,896,166		40,896,166	35,017,085
<u>Other Financing Sources</u>				
Contributions	29,340	3,113,731	269,576	3,412,647
Treasury investment earnings		635,237	907	636,144
Gain on property sales				420,181
Imputed financing (note 7)	608,416			608,416
				583,683
Total Other Financing Sources	637,756	3,748,968	270,483	4,657,207
				7,971,673
Total Financing Sources	41,533,922	3,748,968	270,483	45,553,373
				42,988,758
Net Cost of Operations	40,379,931	47,505,938	235,163	88,121,032
				79,746,384
Net Position - End of the Year	\$23,973,554	\$18,303,570	\$315,679	\$42,592,803
				\$85,160,462

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Budgetary Resources

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2004
(With Comparative Consolidated Total for the Year Ended September 30, 2003)

	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total Funds</u> <u>2004</u>	<u>Total Funds</u> <u>2003</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total</u>	<u>Total</u>
<u>Budgetary Resources</u>					
Budgetary Authority:					
Appropriations	\$41,300,000			\$41,300,000	\$35,246,000
Net transfer in (out) for net foreign exchange loss (gain)	4,746,681			4,746,681	3,721,818
Other (contributions collected)	408,031	\$5,223,561	\$310,429	5,942,021	11,754,933
Less: Rescinded	(243,670)			(243,670)	(229,099)
Unobligated Balances:					
Start of year	10,048,160	49,738,426	215,143	60,001,729	91,995,796
Net transfer (out) in for net foreign exchange (loss) gain	(4,746,681)			(4,746,681)	(3,721,818)
Recoveries of prior year obligations					20,614
Total Budgetary Resources	\$51,512,521	\$54,961,987	\$525,572	\$107,000,080	\$138,788,244
<u>Status of Budgetary Resources</u>					
Obligations incurred - direct	\$34,576,844	\$39,059,050	\$215,833	\$73,851,727	\$78,786,515
Unobligated balances available	16,935,677	15,902,937	309,739	33,148,353	60,001,729
Total Status of Budgetary Resources	\$51,512,521	\$54,961,987	\$525,572	\$107,000,080	\$138,788,244
<u>Outlays</u>					
Obligations incurred	\$34,576,844	\$39,059,050	\$215,833	\$73,851,727	\$78,786,515
Plus: Obligated balances, start of year:					
Undelivered orders	12,756,682	9,922,037	69,338	22,748,057	22,471,299
Delivered orders - unpaid	2,250,071	4,437,984	5,440	6,693,495	8,015,635
Less: Obligated balances, end of year:					
Undelivered orders	(7,045,911)	(1,519,594)	(50,008)	(8,615,513)	(22,748,057)
Delivered orders - unpaid	(3,370,582)	(1,293,690)	(4,117)	(4,668,389)	(6,693,495)
Total Outlays	\$39,167,104	\$50,605,787	\$236,486	\$90,009,377	\$79,831,897

The accompanying notes are an integral part of these statements.

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Consolidating Statement of Financing

AMERICAN BATTLE MONUMENTS COMMISSION
CONSOLIDATING STATEMENT OF FINANCING
For the Year Ended September 30, 2004
(With Comparative Consolidated Total for the Year Ended September 30, 2003)

	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total Funds</u>	<u>Total Funds</u>
				<u>2004</u>	<u>2003</u>
	<u>Cemeteries and Memorials</u>	<u>World War II Memorial</u>	<u>Other Trust Funds</u>	<u>Total</u>	<u>Total</u>
<u>Resources Used To Finance Activities</u>					
Obligations incurred - direct	\$34,576,844	\$39,059,050	\$215,833	\$73,851,727	\$78,786,515
Imputed retirement and audit services	608,416			608,416	583,683
Other transfers and adjustments				0	26,893
Total Resources Used to Finance Activities	35,185,260	39,059,050	215,833	74,460,143	79,397,091
<u>Resources That Do Not Fund Net Cost of Operations</u>					
General property capitalized on the balance sheet	(1,370,130)			(1,370,130)	(211,544)
Decrease in unfunded annual leave		(2,046)		(2,046)	(4,237)
Undelivered orders - start of year	12,756,682	9,922,037	69,338	22,748,057	22,471,299
Less: Undelivered orders - end of year	(7,045,911)	(1,519,594)	(50,008)	(8,615,513)	(22,748,057)
Total Resources That Do Not Fund Net Cost of Operations	4,340,641	8,400,397	19,330	12,760,368	(492,539)
<u>Components of Net Cost of Operations Not Requiring Resources in the Current Period</u>					
Components Requiring Resources in Future Periods:					
Increase in Unfunded Annual Leave	83,574			83,574	98,536
Increase in Unfunded Separation Pay	172,174			172,174	196,550
Components Not Requiring Resources:					
Depreciation	568,942	3,570		572,512	501,956
In-kind expenses	29,340	42,921		72,261	44,790
Total Costs Not Requiring Resources in the Current Period	854,030	46,491	0	900,521	841,832
Net Cost of Operations	\$40,379,931	\$47,505,938	\$235,163	\$88,121,032	\$79,746,384

The accompanying notes are an integral part of these statements.

Notes to the Consolidating and Consolidated Financial Statements

AMERICAN BATTLE MONUMENTS COMMISSION
NOTES TO THE CONSOLIDATING AND CONSOLIDATED FINANCIAL STATEMENTS
For the Fiscal Years Ended September 30, 2004 and 2003

Note 1. Significant Accounting Policies

A. Basis of Presentation

The accompanying consolidating and consolidated financial statements present the financial position, net cost of operations, changes in net position, budgetary resources, and financing of the American Battle Monuments Commission (the Commission) in conformity with U.S. generally accepted accounting principles as used by the federal government. There are no intra-entity transactions to be eliminated.

B. Reporting Entity and Funding Sources

The Commission is an independent agency within the executive branch of the federal government and was created by an Act of March 4, 1923, the current provisions of which are now codified in 36 U.S.C. Chapter 21. The Commission's mission is to commemorate the sacrifices and achievements of U.S. Armed Forces where they have served overseas since April 6, 1917, the date of the United States entry into World War I, and at locations within the United States when directed by the Congress. The Commission designs, administers, constructs, operates, and maintains 24 American military cemeteries and 25 federal memorials, monuments, and markers (herein collectively referred to as memorials). Three of the memorials are located in the United States while all of the cemeteries and the remaining memorials are located on foreign soil in 14 foreign countries, the Marianas, and Gibraltar. The Commission is also responsible for maintaining 4 nonfederal memorials with funds received from the memorials' sponsors. The Commission is headquartered in Arlington, Virginia. Field operations are conducted through regional offices located near Paris, France; and in Rome, Italy; and cemeteries in Manila, the Philippines; Mexico City, Mexico; and Panama City, Panama.

The Commission also has responsibility for designing and constructing the National World War II Memorial located on the Mall in Washington, D.C. In accordance with 40 U.S.C. 8909, the Secretary of the Interior is to assume responsibility for maintenance of the memorial after its completion (see note 11). Also in accordance with 40 U.S.C. 8906 (b), the Commission provided \$6.6 million for deposit in a separate Treasury account to offset the memorial's costs of perpetual maintenance.

Commission programs are funded primarily through appropriations available without fiscal year limitation. The Commission also administers several trust funds established to: (1) build memorials authorized by the Congress, but which are funded primarily by private contributions, commemorative coin sales proceeds, and investment earnings; (2) decorate grave sites; and (3) maintain and repair certain nonfederal war memorials.

C. Basis of Accounting

The Commission's proprietary accounts (assets, liabilities, equity, revenue, and expenses) are maintained on the accrual basis, where appropriated funds are accounted for by appropriation year; operating expenses are recorded as incurred; and depreciation is taken on property, plant, and equipment not otherwise classified as heritage assets. Commission budgetary accounts are maintained on a budgetary basis, which facilitates compliance with legal constraints and statutory funds control requirements. The functional budget classification is Veterans' Benefits and Services.

D. Fund Balances with Treasury

The Commission's cash receipts and disbursements are processed by the U.S. Treasury. Fund balances with Treasury are comprised of appropriated general funds and trust funds.

E. Investments

In accordance with Public Law 103-32, the Commission is authorized to invest World War II Memorial Trust Fund receipts in U.S. Treasury securities. The Commission is also authorized under a modification to its original legislation to invest receipts from certain nonfederal war memorial organizations in U.S. Treasury securities. Treasury investments are recorded at par value plus unamortized premium or less unamortized discount. Premiums and discounts are amortized using the interest method.

F. Foreign Currency

The Commission's overseas offices maintain accounts of foreign currencies to be used in making payments in foreign countries. These accounts are reported at the U.S. dollar equivalent using the Treasury exchange rate in effect on the last day of the fiscal year.

G. Contributions and Revenue Recognition

The Commission recognizes unrestricted contributions or unconditional promises to give as revenue in the period of the initial pledge when sufficient verifiable evidence of the pledge exists. Conditional promises to give are recorded as revenue when the condition has been met. Unconditional promises to give may be temporarily restricted or permanently restricted. Temporarily restricted promises to give are released from restriction when the conditions have been met. Permanently restricted promises to give are recorded as revenue in the period donated, however, donors generally allow only the earned income to be used for general or specific purposes. In-kind contributions of goods and services are recognized at fair value by the Commission at the time the goods are received or the services are performed. Multiyear contributions due over a period of time are discounted to their present value based upon the short term Treasury interest rate.

H. Operating Materials and Supplies Inventories

The Commission has determined that operating materials and supplies located at its cemeteries are not significant amounts and that it is more cost beneficial to record them on the purchase method of accounting whereby items are expensed as purchased rather than when consumed. Consequently, the Commission reports no operating materials or supplies inventories.

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I. Property, Plant, and Equipment

Purchases of general property, plant, and equipment of \$25,000 or less are expensed in the year of acquisition. Purchases of personal property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over 5 years. Expenditures relating to real property exceeding \$25,000 are capitalized and depreciated on a straight-line basis over 30 years. Heritage assets are assets possessing significant cultural, architectural, or aesthetic characteristics. The Commission considers its cemeteries, and federal memorials, monuments, and markers acquired through purchase or donation to be noncollection heritage assets. Heritage assets are acquired through purchase or donation, are accounted for in the Commission's property records, and are not presented in the balance sheet. Withdrawals of heritage assets are recorded upon formal agreement with recipients. Additional unaudited information concerning heritage assets is found in the Statements of Heritage Assets as required supplementary stewardship information. Cemetery land is owned by the foreign countries in which cemeteries are located and is provided to the United States in perpetuity.

J. Employee Benefits

The Commission's civilian U.S. nationals hired after December 31, 1983 are covered by the Federal Employees' Retirement System (FERS), which was implemented on January 1, 1984. The Commission's civilian U.S. nationals hired on or before December 31, 1983, could elect to transfer to FERS or remain with the Civil Service Retirement System (CSRS). For FERS employees, the Commission withholds .80 percent of base pay and as employer contributes 10.7 percent of base pay to this retirement system. For Federal Insurance Contribution Act (FICA) tax and Medicare, the Commission withholds 7.65 percent from FERS employees' earnings, matches this amount on a dollar-for-dollar basis, and remits the total amount to the Social Security Administration. The Commission withholds 7.00 percent of base pay plus 1.45 percent for Medicare from CSRS employees' earnings and as employer contributes 7.00 percent of base pay plus 1.45 percent for Medicare. These deductions are then remitted to the Office of Personnel Management (OPM) and the Social Security Administration. OPM is responsible for governmentwide reporting of FERS and CSRS assets, accumulated plan benefits, and unfunded liabilities.

On April 1, 1987, the federal government instituted the Thrift Saving Plan (TSP), a retirement savings and investment plan for employees covered by FERS and CSRS. The Commission contributes a minimum of 1 percent of FERS employees' base pay to TSP. FERS employees have the option of contributing up to 13 percent of their base pay on a tax-deferred basis to TSP, which the Commission matches up to 4 percent of base pay. CSRS employees may contribute up to 8 percent of their base pay to TSP on a tax-deferred basis and receive no matching contribution from the Commission.

Retirement and other benefits for the Commission's foreign national employees are paid by the Commission in accordance with the provisions of 10 host nation agreements negotiated by the U.S. Department of State.

Annual leave is accrued as earned, and the resulting unfunded liability is reduced as leave is taken. Separation pay is provided in certain countries according to host nation agreements. Separation pay is accrued as earned, and the resulting unfunded liability is reduced when paid to the foreign national leaving the employ of the Commission. Each year balances in the accrued separation pay and annual leave accounts are adjusted to reflect current pay rates. To the extent that current or

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prior year appropriations are not available to fund annual leave and separation pay, funding will be obtained from future financing resources. Sick leave and other types of unvested leave are expensed when incurred.

K. Imputed Financing

The Commission imputed financing for retirement and other benefits paid by OPM and financial audits paid by the Government Accountability Office (GAO) during fiscal year 2004. The Commission recognized these expenses and related imputed financing in its financial statements.

L. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported during the reporting period. Actual results could differ from those estimates.

Note 2. Fund Balances with Treasury

All undisbursed account balances with the U.S. Treasury, as reflected in the Commission's records, as of September 30 are available and were as follows:

	2004			2003
	General Fund	Trust Funds	Total	Total
Appropriated Funds	\$26,135,129		\$26,135,129	\$19,522,806
Currency Fluctuation	785,376		785,376	5,532,057
WW II Memorial Fund		\$13,773,377	13,773,377	6,989,421
Other Trust Funds		<u>310,940</u>	<u>310,940</u>	<u>231,214</u>
	<u>\$26,920,505</u>	<u>\$14,084,317</u>	<u>\$41,004,822</u>	<u>\$32,275,498</u>

Note 3. Treasury Investments, Net

As of September 30, the Commission's investments in U.S. Treasury notes, which are marketable securities due within 2 years were as follows:

FY	Cost	Interest Rates	Net Premium	Interest Receivable	Net Investment
04	<u>\$5,008,000</u>	<u>2.00% to 7.50%</u>	<u>\$61,626</u>	<u>\$41,523</u>	<u>\$5,111,149</u>
03	<u>\$57,168,000</u>	<u>2.00% to 7.50%</u>	<u>\$503,949</u>	<u>\$516,675</u>	<u>\$58,188,624</u>

Amortization is on the interest method, and amortized cost approximated market as of September 30.

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Note 4. Cash and Foreign Accounts

Outside the United States the Commission makes payments in U.S. and foreign currencies through imprest cash funds and Treasury designated depository commercial bank accounts, which as of September 30 were as follows:

	2004	2003
Imprest Cash Funds	\$39,042	\$37,564
Foreign Bank Accounts	72,400	23,530
Undeposited Cash	<u>576</u>	<u>8,790</u>
	<u>\$112,018</u>	<u>\$69,884</u>

Note 5. Contributions Receivable

The Commission has pledges from the private sector to be used for the World War II Memorial, with substantial pledges by major corporations and foundations. These pledges are recorded as contributions receivable and revenue in the fiscal year pledged, and \$733,769 is temporarily restricted until collected. Amounts due in future years are as follows:

Fiscal Year Due

2005	\$331,250
2006	160,000
2007	150,000
2008	100,000
After 2008	<u>173,688</u>
Total amount due	914,938
Less: Present value discount at 2% Treasury rate	<u>(181,169)</u>
Net Receivable	<u>\$733,769</u>

The Commission believes that all contributions receivable are fully collectible, and therefore no allowance for uncollectible accounts has been established.

As of September 30, 2004, \$200 of conditional promises to give to the memorial was outstanding.

Note 6. General Property, Plant, and Equipment and Heritage Assets

General property, plant, and equipment with an aggregate cost basis of \$25,000 or less and all heritage assets were expensed by the Commission and totaled \$3,592,586 in fiscal year 2004 and \$2,872,802 in fiscal year 2003. WWII Memorial equipment totaling \$2,404 in fiscal year 2004 and \$9,727 in fiscal year 2003 was also expensed.

Since the 1960s, the Commission's European regional office near Paris, France, has occupied a residential structure owned by the United States government. The Commission is responsible for all utilities, maintenance, and repairs. While the structure has the characteristics of a heritage asset, it has been used as general property. However, it is now fully depreciated, and no value is contained in the Commission's financial statements.

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General property, plant, and equipment as of September 30 was as follows:

Category	2004			2003		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Buildings	\$1,015,247	\$9,142	\$1,006,105			
Accounting System	1,760,065	1,056,039	704,026	1,760,065	704,026	1,056,039
Equipment	<u>1,989,014</u>	<u>1,218,128</u>	<u>770,886</u>	<u>1,525,116</u>	<u>1,066,771</u>	<u>458,345</u>
	<u>\$4,764,326</u>	<u>\$2,283,309</u>	<u>\$2,481,017</u>	<u>\$3,285,181</u>	<u>\$1,770,797</u>	<u>\$1,514,384</u>

There was no change in the number of physical units or acreage of cemeteries and federal memorials and no change in the number of nonfederal memorials in fiscal year 2004.

Note 7. Other Liabilities

Other liabilities as of September 30 were as follows:

	2004	2003
Accrued Salaries and Benefits	\$846,112	\$768,301
Unfunded Separation Pay Liability	1,247,716	1,075,542
Unfunded Annual Leave	<u>933,868</u>	<u>852,339</u>
	<u>\$3,027,696</u>	<u>\$2,696,182</u>

Under a host nation agreement, the Commission's Italian employees earn separation pay for each year of service with the Commission. The Commission recognized an unfunded liability for separation pay for these employees of \$1,247,716 as of September 30, 2004, and \$1,075,542 as of September 30, 2003.

A portion of pension and other retirement benefits (ORB) expense is funded by an imputed financing source to recognize the amount of pension and ORB unfunded liabilities assumed by OPM. These costs are computed in accordance with cost factors provided by OPM. For fiscal year 2004, the Commission incurred \$1,016,195 of pension and ORB costs, \$303,416 of which was imputed. For fiscal year 2003, the Commission incurred \$1,002,933 of pension and ORB costs, \$325,683 of which was imputed. Total imputed costs of \$608,416 for fiscal year 2004 and \$583,683 for fiscal year 2003 included audit services provided by GAO.

Note 8. Lease Agreements

The Commission has no capital leases. The Commission's Arlington, Virginia, headquarters, including office space for the WWII Memorial Project, are rented under a 10-year operating lease expiring in July 2007. The European Director's living quarters are rented under a yearly agreement. The Commission's Mediterranean Office occupies commercial office space under a 6-year operating lease expiring in May 2007. The Mediterranean Director's living quarters are rented under a 6-year operating lease expiring in December 2007. Rent expense for these fiscal year 2004 operating leases was \$562,181. Future minimum payments due on these operating leases as of September 30, 2004, are as follows:

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<u>Fiscal Year</u>	
2005	\$511,432
2006	501,963
2007	411,046
2008	<u>10,456</u>
	<u>\$1,434,897</u>

Note 9. Net Position

Net position balances as of September 30, 2004, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total</u>
		WWII	Other	
Unexpended Appropriations:				
Unobligated	\$16,935,677 ¹			\$16,935,677
Undelivered Orders	<u>7,045,911</u>	<u> </u>	<u> </u>	<u>7,045,911</u>
	<u>\$23,981,588</u>	<u>\$ </u>	<u>\$ </u>	<u>\$23,981,588</u>
Cumulative Results of Operations (deficit):				
Unrestricted	\$(8,034)	\$16,050,207	\$265,671	\$16,307,844
Undelivered Orders		1,519,594	50,008	1,569,602
Temporarily Restricted		733,769	-	733,769
Permanently Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$(8,034)</u>	<u>\$18,303,570</u>	<u>\$315,679</u>	<u>\$18,611,215</u>
Total Net Position	<u>\$23,973,554</u>	<u>\$18,303,570</u>	<u>\$315,679</u>	<u>\$42,592,803</u>

Net position balances as of September 30, 2003, were as follows:

	<u>General Fund</u>	<u>Trust Funds</u>		<u>Total</u>
		WWII	Other	
Unexpended Appropriations:				
Unobligated	\$10,048,160 ²			\$10,048,160
Undelivered Orders	<u>12,756,682</u>	<u> </u>	<u> </u>	<u>12,756,682</u>
	<u>\$22,804,842</u>	<u>\$ </u>	<u>\$ </u>	<u>\$22,804,842</u>
Cumulative Results of Operations:				
Unrestricted	\$14,721	\$50,757,726	\$211,021	\$50,983,468
Undelivered Orders		9,922,037	69,338	9,991,375
Temporarily Restricted		1,380,777	-	1,380,777
Permanently Restricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$14,721</u>	<u>\$62,060,540</u>	<u>\$280,359</u>	<u>\$62,355,620</u>
Total Net Position	<u>\$22,819,563</u>	<u>\$62,060,540</u>	<u>\$280,359</u>	<u>\$85,160,462</u>

¹ Includes \$13,433,494 for design and construction of the Normandy Interpretive Center, consisting of \$512,594 unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002, \$3,974,000 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003, and \$8,946,900 unobligated (after a \$53,100 rescission) from a \$9,000,000 no-year appropriation for FY 2004.

² Includes \$4,246,028 added for design and construction of the Normandy Interpretive Center, consisting of \$272,028 unobligated from a \$5,000,000 no-year appropriation earmark for FY 2002 and \$3,974,000 unobligated (after a \$26,000 rescission) from a \$4,000,000 no-year appropriation for FY 2003.

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Note 10. Trust Fund – World War II Memorial Fund Program

Financial progress since the inception of the fund in fiscal year 1993 through fiscal year 2004 is as follows:

Costs	2004	Total 1993-2004*
Fundraising	\$2,370,080	\$36,567,258
Administration	1,712,123	9,558,713
Memorial project costs	111,708	1,919,617
Property, plant and equipment	2,404	264,686
Education	-	426,834
Subtotal	4,196,315	48,737,108
Design and Construction	43,309,623	130,029,989
Net Cost of Operations	47,505,938	178,767,097

Financing Sources

Coin surcharge proceeds		4,797,329
Department of Defense		5,000,000
Sale of titanium		6,000,000
General support	3,113,731	165,836,556
Contributions	3,113,731	181,633,885
Investment earnings	635,237	15,436,782
Total Financing Sources	3,748,968	197,070,667
Net Results of Operations	<u>\$(43,756,970)</u>	<u>\$18,303,570</u>

*The amounts for prior fiscal years 1993 through 2003 were audited by GAO and presented in its reports GAO/AIMD-95-9 for fiscal year 1993; GAO/AIMD-96-24 for fiscal year 1994; GAO/AIMD-97-68R for fiscal years 1995 and 1996; GAO/AIMD-98-129R for fiscal year 1997; GAO/AIMD-99-74 for fiscal year 1998; GAO/AIMD-00-85 for fiscal year 1999; GAO-01-375 for fiscal year 2000; GAO-02-390 for fiscal year 2001, GAO-03-444 for fiscal year 2002, and GAO-04-404 for fiscal year 2003.

Note 11. Subsequent Events

On December 8, 2004, Public Law 108-447 appropriated \$41.1 million of no-year funds for the Commission's salaries and expenses for fiscal year 2005. The Commission plans to use \$9.1 million of this appropriation toward the construction of a new interpretive and visitors' center at the American Cemetery in Normandy, France, according to H.R. Conf. Rep. No. 108-792 (Nov. 19, 2004). This brings appropriated funding for the center for fiscal years 2002 through 2005 to a total of \$27.1 million for design and construction. Public Law 108-447 also provided \$12.0 million of no-year appropriations for the Foreign Currency Fluctuation Account.

On November 1, 2004, the Commission signed an agreement with the National Park Service to formally transfer the National WWII Memorial to the Service for its future care and maintenance.

Required Supplementary Stewardship Information

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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Statements of Heritage Assets

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24 Cemeteries

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
<u>European Region</u>					
Aisne Marne American Cemetery	Belleau (Aisne), France	2,290	1,060	42.5	WW I
Ardennes American Cemetery	Neupre, Belgium	5,328	462	90.5	WW II
Brittany American Cemetery	St. James (Manche), France	4,410	498	7.5	WW II
Brookwood American Cemetery	Brookwood, England	468	563	4.5	WW I
Cambridge American Cemetery	Cambridge, England	3,812	5,126	30.5	WW II
Epinal American Cemetery	Epinal (Vosges), France	5,255	424	48.6	WW II
Flanders Field American Cemetery	Waregem, Belgium	368	43	6.2	WW I
Henri-Chapelle American Cemetery	Henri-Chapelle, Belgium	7,992	450	57.0	WW II
Lorraine American Cemetery	St. Avoild (Moselle), France	10,489	444	113.5	WW II
Luxembourg American Cemetery	Luxembourg	5,076	371	48.7	WW II
Meuse-Argonne American Cemetery	Romagne (Meuse), France	14,246	954	130.5	WW I
Netherlands American Cemetery	Margraten, Holland	8,301	1,723	65.5	WW II
Normandy American Cemetery	Colleville Sur-Mer, France	9,387	1,557	172.5	WW II
Oise-Aisne American Cemetery	Fere-en-Tardenois, France	6,012	241	36.5	WW I
Somme American Cemetery	Bony (Aisne), France	1,844	333	14.3	WW I
St. Mihiel American Cemetery	Thiacourt, Meurthe, France	4,153	284	40.5	WW I
Suresnes American Cemetery	Seine, France	1,565	974	7.5	WW I/II
<u>Mediterranean Region</u>					
Florence American Cemetery	Florence, Italy	4,402	1,409	70.0	WW II
North Africa American Cemetery	Carthage, Tunisia	2,841	3,724	27.0	WW II
Rhone American Cemetery	Draguignan, Var, France	861	294	12.5	WW II
Sicily-Rome American Cemetery	Nettuno, Italy	7,861	3,095	77.0	WW II
<u>Other</u>					
Corozal American Cemetery	Panama City, Panama	5,301		16.0	*
Mexico City American Cemetery	Mexico City, Mexico	1,563		1.0	Mex Am
Manila American Cemetery	Luzon, Phillipines	17,206	36,282	152.0	WW II
Subtotal for Cemeteries		131,031	60,311	1,272.3	

*Acquired by Executive Order from the former Panama Canal Zone.

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25 FEDERAL MEMORIALS, MONUMENTS, AND MARKERS

<u>Name</u>	<u>Location</u>	<u>Interred</u>	<u>Memorialized</u>	<u>Acres</u>	<u>War</u>
East Coast Memorial	New York City, NY		4,609	0.8	WW II
Honolulu Memorial	Honolulu, HI		28,800	1.0	WW II/Korea/Vietnam
West Coast Memorial	San Francisco, CA		412	1.3	WW II
Audenarde Monument	Audenarde, Belgium			0.4	WW I
Bellicourt Monument	St. Quentin, France			1.8	WW I
Brest Naval Monument	Brest, France			1.0	WW I
Cabanatuan Memorial	Luzon, Phillipines				WW II
Cantigny Monument	Cantigny, France			0.4	WW I
Chateau-Thierry Monument	Chateau-Thierry, France			58.9	WW I
Chaumont Marker	Chaumont, France				WW I
Gibraltar Naval Monument	Gibraltar			0.1	WW I
Guadalcanal Memorial	Guadalcanal			0.5	WW II
Kemmel Monument	Ypres, Belgium			0.2	WW I
Marine Monument Belleau Wood	Aisne, France			199.6	WW I
Montfaucon Monument	Montfaucon, France			9.6	WW I
Montsec Monument	Thiacourt, France			47.5	WW I
Papua Marker	Port Moresby, New Guinea				WW II
Point du Hoc Ranger Monument	St. Laurent-sur-Mer, France			29.8	WW II
Saipan Monument	Saipan, Northern Mariana Islands				WW II
Santiago Surrender Tree	Santiago, Cuba				Sp American War
Sommepey Monument	Sommepey, France			15.0	WW I
Souilly Marker	Souilly, France				WW I
Tours Monument	Tours, France			0.5	WW I
Utah Beach Monument	Sainte Marie-du-Mont, France			0.5	WW II
Western Naval Task Force Memorial	Casablanca, Morocco				WW II
Subtotal for Memorials		0	33,821	368.9	
Grand Total		131,031	94,132	1,641.2	

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4 NONFEDERAL MEMORIALS

<u>Name</u>	<u>Location</u>	<u>War</u>
29th Infantry Division	Vierville-sur-Mer, France	WW II
30th Infantry Division Memorial	Mortain, France	WW II
6th Engineering Special Brigade Memorial	Vierville-sur-Mer, France	WW II
351st Bomb Group Memorial	Oundle, England	WW II

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Maintenance, Repairs, and Improvements

Maintenance and repairs performed on real property consisting of land improvements, buildings, and memorials totaled \$4.7 million in fiscal year 2004 and \$4.0 million in fiscal year 2003. For fiscal years 1998 through 2002, the Commission received \$11.3 million of additional appropriations from the Congress that enabled it to entirely eliminate its deferred maintenance backlog as of September 30, 2002. No deferred maintenance backlogs existed as of September 30, 2003, and 2004.

Condition assessment surveys, using a five-point scale of one (excellent) to five (very poor), identify needed future maintenance and repair projects at cemeteries and memorials in order to maintain real property in an acceptable condition of three (fair) or better. These surveys are reviewed and updated at least annually by the Commission's engineering staff. In addition, engineering projects identified improvements in cemetery irrigation, drainage, roads, parking areas, and buildings. As of September 30, 2004, the Commission has identified a total of 360 maintenance, repair, and improvement projects, with an estimated cost of \$11.1 million, to be performed in future years, subject to available funding.

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